



FINAL REPORT

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# City of Stockton

## COUNCIL DISCRETIONARY FUNDS REVIEW

February 28, 2025

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## I. EXECUTIVE SUMMARY

Moss Adams LLP (Moss Adams), the City's internal auditor, conducted a review of City Council discretionary funds. The project was initiated at the request of the City Manager and City Attorney and approved by the Audit Committee as an addition to the FY 24-25 internal audit work plan. The project was conducted between October 2024 and February 2025. We performed a variety of procedures to assess compliance with the Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses, including review of expenditure documentation and comparing current processes to best practices. Our procedures included reviewing policies and procedures and documents such as requests to expend funds and invoices, as well as conducting interviews with City employees involved in the management, approval, and oversight of the discretionary funds. Additionally, we assessed the documentation provided by the City that was used to demonstrate funding justification for samples of discretionary expenditures for:

- Adherence to select City guidelines and policies, including a review of reimbursement requests to assess the appropriateness of transactions and an evaluation of the overall review and approval process
- Compliance with the City's Council Policy Manual, Chapter 5.10 Mayor and City Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses
- Detection of inefficiencies, discrepancies, or potential fraud, waste, and abuse (FWA)

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gained from our document reviews, interviews, and analyses of provided documentation. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

### A. OBJECTIVES

Our objective for this engagement was to assess compliance and appropriateness of select expenditures related to the City of Stockton's Council discretionary funds, from July 1, 2023, to December 31, 2024. Specifically, we assessed:

- The extent to which the Mayor and Council Members adhered to select guidelines and requirements outlined in Chapter 5.10 and Chapter 2.04 of the Council Policy Manual regarding the use of discretionary funds.
- The completeness and accuracy of documentation related to discretionary fund expenditures, including application forms, approval records, and supporting receipts, to document compliance with established policies.
- The effectiveness of the approval processes for discretionary fund requests to determine whether approvals were consistently being applied and adequately documented.

Based on the outcomes of the assessment procedures performed to evaluate these objectives, we researched best practice recommendations to enhance compliance with the Council Policy Manual,



Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses and implement process improvements and stronger internal controls.

## B. CONCLUSIONS

We identified two findings that are highlighted in the following table. Within the two findings, we identified costs totaling approximately \$25,818 that appeared out of compliance with the Council Policy Manual, Chapter 5.10 and Chapter 2.04.

FINDINGS AND RECOMMENDATIONS		
1.	<b>Finding</b>	Six out of 42 expenditures tested appeared to be for a travel-related personal benefit, which did not comply with the City's Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses.
	<b>Recommendation</b>	Implement a centralized pre-approval process for travel expenditures and mandatory training sessions for the Mayor, Council Members, and relevant staff to ensure adherence to the applicable policies. Violations should result in immediate corrective actions, including reimbursement.
2.	<b>Finding</b>	Ten out of 42 expenditures appeared to show use of discretionary funds that provided benefits for select groups of people in return for the donations made, without documentation of rationale for the funding decision. Examples include multiple golf events that allowed for four to eight select people to participate and gain access to prizes, meals, and raffles, as well as events where donations were rewarded with table seats for one to 16 individuals with drinks and meals included.
	<b>Recommendation</b>	The City should provide regular training to the Mayor, Council Members, and all relevant personnel on the policy requirements and ethical considerations for the use of public funds. The City should also strengthen the approval process and conduct periodic internal audits to ensure compliance.

## C. COMMENDATIONS

Although the focus of this review was to assess the discretionary fund expense compliance with the City's Council Policy Manual and to compare current processes to best practices, it is important to highlight areas that were operating effectively. The City should be commended for the following accomplishment:

- **Awareness of Compliance Needs:** During our review, the City staff expressed a clear understanding of the importance of adhering to established guidelines for discretionary funding. Their willingness to engage in discussions about compliance indicates a recognition of the need for improvement and a desire to uphold the integrity of public resources.

We would like to thank the City of Stockton's employees and management for their time and cooperation during this Council Discretionary Funds Review. The professionalism and responsiveness of the City's staff greatly facilitated our efforts to understand the use of discretionary funds and the associated policies.



## II. BACKGROUND, SCOPE, AND METHODOLOGY

### A. INTRODUCTION

Moss Adams was contracted by the City to perform a review of City Council discretionary funds. This review assessed compliance with the Council Policy Manual, specifically Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses and compared the City's current discretionary fund management processes to best practices. This review was conducted between October 2024 and February 2025.

### B. BACKGROUND

The City Council consists of the Mayor and six Council Members, each representing a specific district within the City. To support their roles and responsibilities, the Mayor and Council Members are allocated discretionary funds, which can be utilized for various purposes, including community projects, events, and initiatives that benefit their constituents. Each council member is allocated \$15,000 annually, while the Mayor receives a larger allocation of \$60,000. These funds are intended to provide the Mayor and Council Members with the flexibility to address local needs and priorities effectively. The Council discretionary funds are designed to allow the Mayor and Council Members to allocate funds to community projects and initiatives that benefit the public.

These funds are governed by the Council Policy Manual, specifically Chapter 5.10 Mayor and Council Discretionary Funding. Council Policy Manual, Chapter 5.10 outlines the guidelines and procedures for the Mayor and council member's discretionary funds. This policy establishes the framework for the allocation and use of discretionary funds to support community projects, programs, and initiatives that benefit the public. Overall, the policy aims to ensure transparency and accountability while managing public funds effectively, ensuring that all expenditures are justified and properly documented.

The policy also mandates that requests for discretionary funding be submitted in writing, detailing the purpose and intended outcomes, and requires periodic reporting to monitor the use of these funds. Overall, this policy aims to promote responsible financial management and enhance the Council's ability to respond to the needs of the community effectively. The program is overseen by the City Council and administered by the City Manager's Office.

In addition to Chapter 5.10 Mayor and Council Discretionary Funding, the City Council Travel and Expenses policy for the City of Stockton, outlined in Chapter 2.04 of the Council Policy Manual, establishes guidelines for reimbursing the Mayor and Council Members for expenses incurred while performing official duties. It specifies authorized expenses, including travel for meetings, educational seminars, and events that align with the City's interests. The Mayor and Council Members are required to adhere to established guidelines, with reimbursement limited to expenses that fall within these parameters.

Our objectives for this engagement were to assess compliance and appropriateness of select expenditures related to the Council discretionary funds from July 1, 2023 to December 31, 2024. Specifically, we assessed:



- The extent to which the Mayor and Council Members adhered to select guidelines and requirements outlined in Chapter 5.10 and Chapter 2.04 of the Council Policy Manual regarding the use of discretionary funds.
- The completeness and accuracy of documentation related to discretionary fund expenditures, including application forms, approval records, and supporting receipts, to document compliance with established policies.
- The effectiveness of the approval processes for discretionary fund requests to determine whether approvals were consistently being applied and adequately documented.

Based on the outcomes of the assessment procedures performed to evaluate these objectives, we researched best practice recommendations to enhance compliance with the Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses and implement process improvements and stronger internal controls.

## C. SCOPE AND METHODOLOGY

To obtain an understanding of the processes and controls related to the Council discretionary funds, we conducted interviews with key personnel from the City Manager's Office. The employees we interviewed held designated responsibilities related to the discretionary funds including transaction approval and program oversight. In addition, we reviewed relevant policies and procedures, including the Council Policy Manual, particularly Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses. We performed the following detailed testing and analysis procedures:

**Discretionary Fund Testing:** To assess expenditures from the Council discretionary funds, we selected a judgmental sample of 42 expenditures from the Mayor Discretionary Account Details and the City Council Discretionary Funds spreadsheets, that were incurred between July 2023 and December 2024.

For the 42 expenditures selected, we performed the following testing:

- **Authorized Expense Verification:** To evaluate whether expenditures from the discretionary fund were authorized expenses according to the defined criteria in the Council Policy Manual, we assessed whether each expense, based on the support provided, appeared to:
  - Have a clear community benefit
  - Not be religious or political in nature
  - Not provide personal benefit to the Mayor, Council Members, or any other individuals

To perform this evaluation, we selected a judgmental sample of expenditures and reviewed approval records, supporting receipts, invoices, and other documentation provided by the City Manager's Office.

- **Mileage Reimbursement Testing:** For expenditures that were for mileage reimbursements, we assessed whether they appeared appropriate and reviewed reimbursement requests to evaluate whether each trip was related to one of the permitted specified criteria. This included assessing whether the trips appeared to be for communication or meetings with constituents, attendance at local events with a community benefit, or participation in City-sponsored events. Additionally, we assessed whether the events and meetings for which mileage was claimed did not appear to be political or religious in nature, in compliance with the City's reimbursement policy.



- **Membership Reimbursement Testing:** For expenditures that were for memberships, we assessed the appropriateness of membership reimbursements and reviewed reimbursement requests to evaluate whether each expense met the established criteria. This included assessing whether that the membership appeared to provide a clear community benefit and did not result in personal benefit to the Mayor, Council Members, or any other individuals. Each transaction was analyzed to assess for compliance with the City's policies regarding membership reimbursements.



### III. FINDINGS AND RECOMMENDATIONS

#### Travel Expenses

1.	Finding	Six out of 42 expenditures tested appeared to be for a travel-related personal benefit, which did not comply with the City's Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding and Chapter 2.04 City Council Travel and Expenses.
	Recommendation	Implement a centralized pre-approval process for travel expenditures and mandatory training sessions for the Mayor, Council Members, and relevant staff to ensure adherence to the applicable policies. Violations should result in immediate corrective actions, including reimbursement.

The Council Policy Manual, Chapter 2.04 City Council Travel and Expenses, states: "To conserve City resources and keep expenses within community standards for public officials, expenditures shall adhere to the rules and guidelines set forth in this policy and shall govern reimbursement to City Councilmembers for actual and necessary expenses incurred in the performance of official duties."

In addition, the Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding, states that expenses "cannot be a personal benefit."

During our testing, we identified that six out of 42 transactions approximately \$8,239 that could be viewed as being for personal benefit, including two instances of first-class seat upgrades and four instances of hotel costs outside internal City policies, with nightly rates ranging from \$349 to \$679.

The potential effects of these transactions include inequitable use of public resources, diminished public trust in the management of discretionary funds, and increased risk of misuse of funds. Failure to comply with the policy could lead to financial discrepancies and undermine the integrity of the City's financial management processes. The discrepancies identified may be attributed to a lack of a well-defined and consistently applied process for ensuring that travel-related expenses meet established guidelines.

The City should consider implementing the following steps to improve the management of travel-related Mayor and council member discretionary fund expenses:

- **Centralize the Approval Process:** Streamline the approval process to ensure all travel-related expenses are reviewed centrally for compliance before the trip occurs.
- **Mandatory Training:** Conduct mandatory training sessions for the Mayor, Council Members, and relevant staff on the Council Policy Manual, Chapter 2.04 City Council Travel and Expenses, to emphasize the importance of compliance.
- **Regular Audits:** Implement regular audits of travel expenses to monitor adherence to the policy, with findings to be reported publicly to enhance transparency.
- **Enforce Corrective Actions:** For any violations detected, such as inappropriate expenditures, enforce immediate corrective actions including reimbursement of disallowed expenses.





## Event Tickets

2.	Finding	Ten out of 42 expenditures appeared to show use of discretionary funds that provided benefits for select groups of people in return for the donations made, without documentation of rationale for the funding decision. Examples include multiple golf events that allowed for four to eight select people to participate and gain access to prizes, meals, and raffles, as well as events where donations were rewarded with table seats for one to 16 individuals with drinks and meals included.
	Recommendation	The City should provide regular training to the Mayor, Council Members, and all relevant personnel on the policy requirements and ethical considerations for the use of public funds. The City should also strengthen the approval process and conduct periodic internal audits to ensure compliance.

The Council Policy Manual, Chapter 5.10 Mayor and Council Discretionary Funding, states that “expenses incurred by Councilmembers in connection with sponsorship for activities or events constitute authorized and reimbursable expenses under the following conditions:

- Has a community benefit.
- Cannot be religious or political in nature.
- Cannot be a personal benefit”.

During our review, we identified that ten expenditures totaling \$17,579 involved discretionary funds that provided benefits to select groups. This included sponsorship of multiple golf events allowing four to eight select people access to prizes, meals, and raffles and donations in exchange for event tickets with access to exclusive seating, meals, and drinks. Our review of documentation provided revealed that allocating discretionary funds for event tickets appears to benefit only select individuals rather than the broader community, raising concerns about the appropriate use of public resources.

The potential effects of these transactions include the misallocation of public resources, diminished public trust in the management of taxpayer dollars, and the risk of non-compliance with legal standards. Failure to adhere to the requirements outlined in the policy could lead to further scrutiny of the City’s financial practices and potentially undermine the integrity of public funding.

The discrepancies between the use of discretionary funds and the policy may be attributed to a lack of clear guidelines and a potential insufficient approval process for funding requests. Additionally, there may be a lack of awareness or training among City personnel regarding the policy requirements and ethical considerations associated with the use of these public funds.

To address the misuse of discretionary funds and ensure alignment with City policies, the City should implement the following to promote compliance with the Council Policy Manual, Chapter 5.10:

- **Establish Clear Funding Criteria:** Define and communicate specific criteria for what constitutes an appropriate use of discretionary funds, ensuring that all expenditures align with policy requirements.



- **Maintain Detailed Records:** Ensure that all funding requests and approvals are documented thoroughly, including the rationale for each decision and how it aligns with the policy.
- **Strengthen Approvals:** Better designate which individuals are responsible for reviewing discretionary fund transactions, and better define what the approvers should be looking for during their reviews. Also, see Process Improvement #3 in the next section for additional recommendations on the approval process.
- **Regular Training:** Provide ongoing training for Council Members, the Mayor, and relevant staff on the guidelines for discretionary funding, emphasizing the importance of compliance with the policy and ethical considerations regarding the use of public funds.
- **Public Reporting:** Regularly audit and report on the use of discretionary funds, including the outcomes of funded activities, to the public to enhance transparency and accountability in fund management.

Implementing these measures will help safeguard the integrity of public funding and reinforce public trust in the administration of taxpayer dollars. By ensuring that all activities funded by public resources truly serve the public interest, the City can better fulfill its obligations to its constituents.



## IV. PROCESS IMPROVEMENT OPPORTUNITIES

Moss Adams identified process improvement opportunities resulting from this review that did not rise to the level of a finding. The table below summarizes these opportunities for the City's consideration.

CATEGORY		PROCESS IMPROVEMENT OPPORTUNITIES
1	<b>Formal Application Process</b>	<p>The City does not have a formal application process in place for managing Council discretionary funds. Best practices for managing Council discretionary funds include implementing a formal application process for entities seeking funding. This approach enhances transparency, accountability, and equitable distribution of funds, while also mitigating the risks of inconsistent funding decisions and favoritism. Such measures are crucial in maintaining public trust and ensuring the responsible use of taxpayer resources. By establishing clear guidelines, the City can foster a fair and systematic method for evaluating funding requests.</p> <p>To further this goal, the City should develop a standardized application form that entities must complete when requesting funding from the Council Members or the Mayor. This form should be readily accessible on the City's website to encourage participation and streamline the application process. Our recommendations are informed by a review of practices from other cities, particularly those within California, which highlights the importance of structured processes in effectively managing discretionary funds and supporting community initiatives.</p>
2	<b>Review Structure</b>	<p>The lack of a clear decision-making hierarchy between the City Attorney's Office and the City Manager's Office creates confusion in reviewing discretionary fund expenditure requests, which can lead to inefficiencies and delays. Both offices are responsible for ensuring compliance with the City's financial policies per Council Policy Manual, Chapter 5.10, resulting in overlapping duties and uncertainty about who has the final authority to approve expenditures. This dual review process can slow down decision-making due to conflicting interpretations from each office.</p> <p>The City should establish a clear hierarchy for reviewing discretionary fund expenditure requests to ensure the expenses are appropriate and compliant with the policy. The City Attorney's Office should focus on ensuring legal compliance for expenditure requests, while the City Manager's Office should evaluate alignment with the City's strategic priorities and budget. Implementing a sequential review process, where the City Attorney's Office reviews requests first and the City Manager's Office gives final approval, will streamline workflows, reduce inefficiencies, and clarify decision-making authority. This structured approach will improve accountability, speed up approvals, and help ensure expenditures align with the City's financial policies.</p>
3	<b>Council Stipend for Administrative Costs</b>	<p>Discretionary funds could be potentially misused for administrative costs, including cell phone bills, personal car, internet access fees, professional development, and membership dues. Such misuse could lead to the misallocation of public resources and a lack of accountability in the reimbursement process, potentially undermining public trust in the Council's financial stewardship. To mitigate these risks, the City should consider establishing a stipend system specifically designed for cell phone reimbursement and other approved administrative expenses incurred by Council Members. This system would provide a fixed monthly stipend that is directly tied to their official duties, ensuring that funds are used appropriately and transparently.</p>



CATEGORY	PROCESS IMPROVEMENT OPPORTUNITIES
	<p>Under this stipend system, the amount allocated should be based on a reasonable estimate of expected costs, which should be clearly documented in the Council's budget. To further enhance transparency and accountability, the Mayor and Council Members should be required to submit a brief report detailing their cell phone usage for official purposes. This reporting mechanism would not only provide insight into the use of public funds but also reinforce the expectation that the Mayor and Council Members adhere to responsible financial practices. By implementing these measures, the City can foster a culture of accountability and help ensure that discretionary funds are specifically utilized effectively to serve the community's interests.</p>

